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Office of Fiscal and Program Review

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FISCAL NEWS

MONTHLY NEWSLETTER OF THE OFFICE OF FISCAL AND PROGRAM REVIEW

SEPTEMBER 2007

Volume 1, Number 9

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The Office of Fiscal and Program Review (OFPR) is a nonpartisan staff office of the Legislative Council providing budget, tax and general fiscal research and analysis for the Maine State Legislature.



Month In Review

The revenue picture for the first two months of fiscal year 2008 indicates some trends that do not bode well for the fall revenue forecast updates for both the General Fund and the Highway Fund.

The Appropriations Committee continued its work on “The Initiative” to Streamline State Government, reviewing the web-based public input for savings ideas and the proposals submitted by state agencies to achieve the targeted level of savings.

General Fund Revenue Update

Total General Fund Revenue - FY 2008 (\$'s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
Aug	82.7	91.4	8.7	10.6%	89.5	2.1%
FYTD	314.1	314.6	0.5	0.2%	311.9	0.9%

General Fund revenue for August was over budget by \$8.7 million, erasing all of the negative variance that resulted from July’s revenue performance. For the Fiscal Year-to-date (FYTD), General Fund revenue was \$0.5 million over budget or +0.2%. However, growth over the same period in FY 2007 was only 0.9%. Although there appears to be a modest positive variance, there are some problem areas that will require a revenue adjustment in the fall revenue forecast and some temporary positive variances that are strictly timing issues, primarily Business Equipment Tax Reimbursement (BETR) program payments, IF&W revenue and fine revenue. These items have temporarily created positive revenue variances, which will likely be offset in future months as accounting entries are made or as reimbursement payments to taxpayers catch up.

Individual Income Tax collections were over budget, but only as a result of the timing of BETR and Tax and Rent Refund (Circuit Breaker) program payments. Combined these programs contributed \$7.5 million to the positive variance. Weakness in withholding payments indicates some slower economic growth.

Sales and Use Tax collections were under budget by \$3.2 million through August and Cigarette and Tobacco Products Taxes continued to fall below budget (\$0.9 million or -2.9% for the FYTD).

**General Fund Revenue Update—continued**

Corporate Income Tax has been under budget each month this fiscal year, but September filings will be a more important indicator of performance for the fiscal year. A very preliminary look at September filings indicate that there is some weakness in this category as well, which might prompt a downward revision in the fall revenue forecast.

Within the positive variance in the Other Revenue category, Judicial Department fine revenue and IF&W revenue contributed artificially to this positive variance due to the delay in accounting entries. September revenue will reflect the adjustments and reduce the positive variance in Other Revenue.

Highway Fund Revenue Update**Total Highway Fund Revenue - FY 2008 (\$'s in Millions)**

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
Aug	6.7	7.6	0.9	13.2%	6.5	16.9%
FYTD	36.3	33.4	(2.9)	-8.0%	34.9	-4.1%

Highway Fund revenue was under budget through August by \$2.9 million or -8.0% and actual revenue

declined by 4.1% from the same period last fiscal year. The negative variance in the Fuel Taxes line continued to be the primary factor in the poor performance of Highway Fund revenue. No Highway Fund fine revenue has been recorded in FY2008. This should catch up in September as accounting data entry issues are resolved.

Revenue Forecasting Schedule

The Consensus Economic Forecasting Commission (CEFC) meets on Tuesday, October 16th at 9:30 AM in the Appropriations Committee Room (Room 228 of the State House). This is the first step in the fall revenue forecast update. The Revenue Forecasting Committee (RFC) will incorporate the economic

forecast changes into Maine Revenue Services' tax models and evaluate the results. The RFC will meet in November to update the revenue forecasts for the General Fund, Highway Fund and the Fund for a Healthy Maine. The date for the November RFC meeting has not yet been set.

Cash Balances Update
Summary of Treasurer's Cash Pool
August 2007 Average Daily Balances
Millions of \$'s

General Fund (GF) Total	\$73.5
General Fund (GF) Detail:	
Budget Stabilization Fund	\$115.7
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$78.4
Other General Fund Cash	(\$161.2)
Other Spec. Rev. - Interest to GF	\$78.4
Other State Funds - Interest to GF	\$5.6
Highway Fund	\$28.1
Other Spec. Rev. - Retaining Interest	\$82.1
Other State Funds	\$262.2
Independent Agency Funds	\$114.6
Total Cash Pool	\$644.5

Average balance for the total cash pool in August was \$644.5 million. This is below the average balance for the month of August of the last six years of \$657.0 million. Cash balances remain close to averages despite the fact that the State has relied on internal borrowing from within the cash pool rather than going out to external, short-term borrowing, such as Tax Anticipation Notes. There is no indication that this reliance on internal borrowing will change in the short term.

Some concerns remain about the current projections of cash balances for the General Fund and the Highway Fund. As noted above in the revenue updates, some negative revenue variances appear to be on-going and will affect the fall revenue forecast. However, the expenditures approved by the enacted budget have not yet been adjusted to reflect these revenue issues, creating a potential cash shortfall in these funds until the Legislature acts to address the shortfalls.



“The Initiative” to Streamline State Government

As noted in previous issues of the *Fiscal News*, the Appropriations Committee is undertaking a comprehensive analysis of State Government with the goals of consolidating functions and eliminating duplication and inefficiencies in programs, in contracted personal services and in the administrative and management positions within the structure of State Government. This effort is referred to as “The Initiative” to Streamline State Government, which was authorized by PL 2007, c. 240, Part QQQ. “The Initiative” has a separate web page where staff is posting information about the committee’s efforts to streamline state government. See <http://www.maine.gov/legis/ofpr/afaInitiative.html>.

Committee Review of Savings Ideas

The committee is in the process of reviewing the public input received through the web page created to accept public input. The hundreds of responses received, some anonymous, were compiled and collated by the staff of the Office of Fiscal and Program Review. All of the input from the public received prior to the September 14th deadline for public input has been posted and is available at the website noted above. Committee staff reviewed the list and filtered the proposals pulling together in a summary document only those items that represented specific, on-going structural savings. The committee also directed staff to exclude from the filtered list those items that solely increased revenue or resulted in significant reductions to services. This filtered summary, also posted on the web page, was reviewed by the Appropriations Committee at the September 26th and September 27th meetings.

The Appropriations Committee also reviewed, once again, the ideas submitted by the Administration and the state agencies. The committee devoted the whole of the meeting on the 27th to assigning rankings to the various savings ideas of the agencies and the public input. Items were designated within the 1st tier, if the committee, by consensus, was interested in the idea and felt that the proposal should be fully analyzed by staff and drafted in bill form. These items will be presented

at the October 17th and 18th meetings of the Appropriations Committee. The committee wanted to be clear that the items placed in this 1st tier did not necessarily mean that they have been finally voted in. That final vote would be at a future meeting.

Items were placed in a 2nd tier, if the committee was interested in pursuing the idea further, but did not have sufficient information at this time to place it in the 1st tier or to dismiss the idea outright. Items were placed in the final or 3rd tier ranking, if the committee did not wish to pursue the idea any further. Within the 2nd and 3rd tiers are several items that the committee decided to defer to a policy committee as it had done earlier with the ideas affecting the Legislature, deferring to the Legislative Council for legislative savings ideas. Staff will be sending a letter with a list of the items referred to another committee or another entity in the first week of October. Staff will be developing and posting to the web the list of ideas in each of the tiers or categories.

Policy Committee Input

The Appropriations Committee sent out a letter to the Chairs of the other committees of the Legislature offering to them the opportunity to comment on any of the savings ideas being considered as part of “The Initiative” to Streamline State Government. The committee has asked to receive these comments prior to the October meetings. While this will not be the last opportunity to comment on the numerous ideas pending decision making as part of “The Initiative,” the Appropriations Committee wanted to make sure it was aware of any concerns and issues associated with these ideas as soon as possible. Further public comment on ideas should also be directed to the Appropriations Committee prior to the October meetings.

General Fund and Highway Fund Revenue
Fiscal Year Ending June 30, 2008
Reflecting Budgeted Amounts Through 123rd Legislature, 1st Regular Session

AUGUST 2007 REVENUE VARIANCE REPORT

Revenue Line	August '07 Budget	August '07 Actual	August '07 Variance	FY08 YTD Budget	FY08 YTD Actual	FY08 YTD Variance	FY08 YTD Variance %	FY07 Budgeted Totals
General Fund								
Sales and Use Tax	1,222,665	(2,080,849.70)	(3,303,514.70)	97,521,862	94,345,093.36	(3,176,768.64)	-3.3%	1,006,131,180
Service Provider Tax	47,325	(167,789.58)	(215,114.58)	4,313,551	4,101,540.41	(212,010.59)	-4.9%	51,181,910
Individual Income Tax	46,146,425	52,138,736.38	5,992,311.38	141,264,930	146,895,958.32	5,631,028.32	4.0%	1,382,788,225
Corporate Income Tax	4,500,000	(1,099,888.37)	(5,599,888.37)	13,000,000	6,027,812.51	(6,972,187.49)	-53.6%	202,052,405
Cigarette and Tobacco Tax	16,725,663	16,182,679.23	(542,983.77)	31,469,596	30,548,227.54	(921,368.46)	-2.9%	163,774,241
Public Utilities Tax	0	347,980.26	347,980.26	0	347,980.26	347,980.26	N/A	17,476,987
Insurance Companies Tax	61,550	51,926.25	(9,623.75)	480,845	1,839,895.76	1,359,050.76	282.6%	76,751,673
Estate Tax	(3,500,000)	(2,800,286.45)	699,713.55	0	(783,192.93)	(783,192.93)	N/A	45,258,169
Property Tax - Unorganized Territory	0	0.00	0.00	0	0.00	0.00	N/A	12,263,986
Income from Investments	0	507,457.03	507,457.03	0	534,809.27	534,809.27	N/A	1,424,000
Transfer to Municipal Revenue Sharing	(2,647,738)	(2,488,300.65)	159,437.35	(13,061,119)	(12,819,890.64)	241,228.36	1.8%	(134,749,842)
Transfer from Lottery Commission	3,833,400	5,119,655.92	1,286,255.92	7,666,800	9,479,509.29	1,812,709.29	23.6%	49,834,250
Other Revenue	16,283,072	25,684,435.72	9,401,363.72	31,471,134	34,128,492.40	2,657,358.40	8.4%	231,506,341
Totals	82,672,362	91,395,756.04	8,723,394.04	314,127,599	314,646,235.55	518,636.55	0.2%	3,105,693,525
Highway Fund								
Fuel Taxes	(1,682,407)	(1,689,082.23)	(6,675.23)	19,944,919	16,993,060.68	(2,951,858.32)	-14.8%	234,550,398
Motor Vehicle Registration and Fees	7,000,172	7,858,716.39	858,544.39	13,827,507	14,065,229.10	237,722.10	1.7%	87,290,064
Inspection Fees	497,095	484,292.25	(12,802.75)	879,195	905,671.75	26,476.75	3.0%	4,433,458
Fines	176,550	0.00	(176,550.00)	345,656	0.00	(345,656.00)	-100.0%	2,018,239
Income from Investments	130,000	175,291.67	45,291.67	130,000	175,291.67	45,291.67	34.8%	795,000
Other Revenue	614,551	794,872.82	180,321.82	1,216,391	1,299,790.76	83,399.76	6.9%	10,195,906
Totals	6,735,961	7,624,090.90	888,129.90	36,343,668	33,439,043.96	(2,904,624.04)	-8.0%	339,283,065

Comparison of Actual Year-to-Date Revenue Through August of Each Fiscal Year

REVENUE CATEGORY	FY 2004	% Chg	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg	FY 2008	% Chg
GENERAL FUND										
Sales and Use Tax	\$87,855,037.80	6.3%	\$90,326,360.01	6.5%	\$94,130,145.85	4.2%	\$94,721,686.60	0.6%	\$94,345,093.36	-0.4%
Service Provider Tax	\$0.00	N/A	\$3,207,756.32	N/A	\$2,803,093.80	-12.6%	\$4,147,644.88	48.0%	\$4,101,540.41	-1.1%
Individual Income Tax	\$108,768,823.43	4.2%	\$133,075,823.82	22.3%	\$138,155,445.89	3.8%	\$154,136,425.52	11.6%	\$159,154,477.36	3.3%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	(\$7,699,529.93)	N/A	(\$9,088,938.64)	-18.0%	(\$9,430,364.58)	-3.8%	(\$9,062,568.04)	3.9%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	(\$6,545,688.00)	N/A	(\$9,490,372.00)	-45.0%	(\$3,195,951.00)	66.3%
Corporate Income Tax	\$300,290.82	-94.5%	\$6,035,418.07	1909.9%	\$7,923,972.45	31.3%	\$12,762,917.51	61.1%	\$6,027,812.51	-52.8%
Cigarette and Tobacco Tax	\$18,005,689.52	-3.7%	\$17,226,431.28	-4.3%	\$18,887,158.86	9.6%	\$31,034,312.39	64.3%	\$30,548,227.54	-1.6%
Public Utilities Tax	(\$293,687.83)	-95.8%	(\$150,000.00)	48.9%	\$0.00	100.0%	\$0.00	N/A	\$347,980.26	N/A
Insurance Companies Tax	\$1,933,548.96	-16.5%	\$1,273,111.20	-34.2%	\$805,659.41	-36.7%	\$419,795.01	-47.9%	\$1,839,895.76	338.3%
Estate Tax	(\$754,759.48)	38.6%	(\$2,345,886.94)	-210.8%	\$11,291,841.40	581.3%	\$130,227.50	-98.8%	(\$783,192.93)	-701.4%
Property Tax - Unorganized Territory	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A
Income from Investments	\$294,745.70	897.7%	\$399,054.61	35.4%	\$507,745.71	27.2%	\$688,196.32	35.5%	\$534,809.27	-22.3%
Revenue Sharing Transfers	(\$10,043,131.77)	-2.3%	(\$11,472,237.24)	-14.2%	(\$11,596,279.59)	-1.1%	(\$12,589,244.83)	-8.6%	(\$12,819,890.64)	-1.8%
Liquor Transfers	\$5,498,639.90	3.9%	\$50,020,092.94	809.7%	\$750.00	-100.0%	\$5,971.36	696.2%	\$0.00	-100.0%
Lottery Transfers	\$7,124,075.40	-3.7%	\$8,182,556.26	14.9%	\$7,813,966.67	-4.5%	\$8,231,109.41	5.3%	\$9,479,509.29	15.2%
Other Revenue	\$30,127,796.76	38.2%	\$28,496,403.92	-5.4%	\$25,216,507.59	-11.5%	\$37,128,964.92	47.2%	\$34,128,492.40	-8.1%
TOTAL GENERAL FUND REVENUE	\$248,817,069.21	5.1%	\$316,575,354.32	27.2%	\$280,305,381.40	-11.5%	\$311,897,270.01	11.3%	\$314,646,235.55	0.9%
HIGHWAY FUND										
Fuel Taxes	\$17,673,849.82	23.1%	\$20,546,046.20	16.3%	\$18,528,755.70	-9.8%	\$19,000,525.60	2.5%	\$16,993,060.68	-10.6%
Motor Vehicle Registration and Fees	\$13,191,654.45	-1.9%	\$13,742,299.53	4.2%	\$14,408,024.57	4.8%	\$13,525,941.86	-6.1%	\$14,065,229.10	4.0%
Inspection Fees	\$910,806.33	20.9%	\$660,521.40	-27.5%	\$778,715.10	17.9%	\$839,581.68	7.8%	\$905,671.75	7.9%
Fines	\$332,164.68	-27.9%	\$167,189.70	-49.7%	\$373,642.31	123.5%	\$284,013.02	-24.0%	\$0.00	-100.0%
Income from Investments	\$56,980.39	-71.5%	\$70,933.17	24.5%	\$210,262.79	196.4%	\$129,235.35	-38.5%	\$175,291.67	35.6%
Other Revenue	\$1,153,122.70	6.1%	\$1,122,934.91	-2.6%	\$1,456,791.13	29.7%	\$1,091,761.59	-25.1%	\$1,299,790.76	19.1%
TOTAL HIGHWAY FUND REVENUE	\$33,318,578.37	10.0%	\$36,309,924.91	9.0%	\$35,756,191.60	-1.5%	\$34,871,059.10	-2.5%	\$33,439,043.96	-4.1%

Adjusted for Service Provider Tax Split